Missouri Department of Natural Resources

Missouri Energy Efficiency and Renewable Energy (EE/RE) Set-Aside Program – Frequently Asked Questions

Energy Center fact sheet 10/2005

Q: What is Missouri's EE/RE Set-Aside?

In response to air quality improvement requirements set by the U.S. Environmental Protection Agency (EPA), Missouri established a nitrogen oxides (NOx) allowance cap and trade program in eastern Missouri. As part of this program, Missouri set aside 134 NOx allowances to be awarded annually to energy efficiency and renewable energy (EE/RE) projects located in eastern Missouri that reduce NOx emissions from power plants during the summer ozone season.[1] Successful EE/RE projects can receive a stream of awards for up to five years. The awards are in the form of NOx allowances that can be sold to the highest bidder.

The Missouri Department of Natural Resources (MoDNR) Energy Center is responsible for decisions about awards from the set-aside. Additional information is available in the *Guide for Applicants*.

Q: What is the NOx SIP Call?

EPA issued the NOx SIP Call in 1998 to reduce air-borne transport of NOx emissions in the eastern United States. NOx can be transported from "upwind" sources such as Midwestern power plants to "downwind" urban areas hundreds of miles to the east that have ozone attainment problems.

Through the NOx SIP Call, USEPA required 22 states and the District of Columbia to limit total NOx emissions between May 1 and Sept. 30 to a specific maximum quantity or "cap." In Missouri's case, the requirement applies to 36 counties and the City of St. Louis in the eastern half of the state.[2]

Missouri and other states subject to the NOx SIP Call have implemented state cap-and-trade programs based on allocating and trading NOx allowances.

Q. How does the NOx cap and trade system work?

Each of the eight utility power plants in eastern Missouri affected by the NOx SIP Call receives an annual allocation of NOx allowances or "cap"– a total of 13,266 allowances for all the power plants. If a power plant emits more NOx than its initial allocation of allowances can cover, the utility must acquire additional allowances to cover the deficit. If the utility has surplus allowances, it can sell or trade them.

The trading system for NOx allowances is maintained by EPA, which creates accounts for each holder of allowances and tracks the certificates through its National Allowance Tracking System (NATS).

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Q: What is the value of a NOx allowance awarded by Missouri's EE/RE Set-Aside?

A NOx allowance is a certificate that allows its holder to emit one ton of NOx during the summer ozone season. Anyone holding a NOx allowance can sell it to the highest bidder.

Imposition of the NOx SIP Call across a 22-state region created a fairly robust regional market for these allowances. The recent market value of NOx allowances has ranged from $2,500 to $3,000 per allowance. However, the future market value of these allowances is not guaranteed.

Q: Who may apply for an award from Missouri's EE/RE Set-Aside?

Any individual, group, organization or business may apply for an award for a specific project. However, the applicant must have the legal right to claim an award for the project. This right normally belongs to the project owner or is assigned by the owner to a "project aggregator."

Q: What kinds of projects are eligible for an award?

To be eligible for an award, the project must fit into one of the following four categories. For further explanation of these categories, see the *Guide for Applicants.*

- Energy efficiency (EE) projects that reduce the consumption of electricity or increase the efficiency of electricity use.
- Renewable energy (RE) projects that generate electricity from zero-emission renewable sources such as solar, wind and landfill gas or digester gas.
- Renewable energy (RE) projects based on burning biomass alone or co-fired with coal. The calculation of the award must take into account emissions from biomass combustion. Eligible biomass resources include wood and wood waste, energy crops such as switchgrass, and agricultural wastes such as crop and animal waste. Municipal solid waste is not included.
- Combined heat and power (CHP) projects that use waste heat to generate electricity and/or use the waste heat from generation for purposes such as hot or chilled water or space heating or cooling.

Q: What other requirements must a project meet to be eligible for an award?

- The project must be located in one of the 37 eastern Missouri jurisdictions listed in Footnote 2.
- The project must have commenced operation after Sept. 1, 2005.
- The project must not already be required by federal government regulation or used to generate compliance credits or permitting credits in the State Implementation Plan.

Q: What must a project achieve to qualify for an award?

The project must reduce summer ozone season NOx emissions by at least one ton, calculated using conventional arithmetic rounding. The calculation of NOx reductions will be based on equations listed in the *Guide for Applicants* using verified project activity data from the 2006 summer ozone season.

Projects that do not achieve this threshold can still be part of an aggregate project. Project "aggregators" may own a number of project sites or (like energy service companies) may manage a number of project sites owned by others. The aggregator must have the legal right to claim awards for the included projects.

Q: What is the schedule for the first round of awards from Missouri's EE/RE Set-Aside?

- March 15, 2006 – Deadline to request an early review of project eligibility and methods to measure and verify data. Early review is strongly encouraged.
- 2006 Summer Ozone Season (May 1 to Sept. 30) -- Operate the project and collect data to demonstrate electricity savings or renewable generation the project achieved.
- Nov. 30, 2006 – Deadline to apply for award, using forms supplied by the Department of Natural Resources.
- March 1, 2007 – NOx allowances from the set-aside will be awarded following department review. Please respond in a timely manner to requests for additional information prior to this date.

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[1] NOx (oxides of nitrogen) is a precursor of particulate matter and ground-level ozone. Ozone is a serious health hazard and a key ingredient in urban smog. The summer ozone season is May 1 – September 30.

[2] The 37 jurisdictions included in "eastern Missouri" are Bollinger, Butler, Cape Girardeau, Carter, Clark, Crawford, Dent, Dunklin, Franklin, Gasconade, Iron, Jefferson, Lewis, Lincoln, Madison, Marion, Mississippi, Montgomery, New Madrid, Oregon, Pemiscot, Perry, Pike, Ralls, Reynolds, Ripley, St. Charles, St. Francois, St. Louis, Ste. Genevieve, Scott, Shannon, Stoddard, Warren, Washington and Wayne counties and the City of St. Louis.